

**REPORT OF THE AUDIT OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
May 19, 2007 Through July 18, 2008**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
May 19, 2007 Through July 18, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Muhlenberg County Sheriff for the period May 19, 2007 through July 18, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,441,822 for the districts for 2007 taxes, retaining commissions of \$320,400 to operate the Sheriff's office. The Sheriff distributed taxes of \$9,099,494 to the districts for 2007 taxes. Taxes of \$2,264 are due to the districts from the Sheriff and refunds of \$4,908 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Honorable Charles E. Perry, Muhlenberg County Sheriff

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the Muhlenberg County Sheriff's Settlement - 2007 Taxes for the period May 19, 2007 through July 18, 2008. This tax settlement is the responsibility of the Muhlenberg County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Muhlenberg County Sheriff's taxes charged, credited, and paid for the period May 19, 2007 through July 18, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Honorable Charles E. Perry, Muhlenberg County Sheriff

Members of the Muhlenberg County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

October 7, 2008

MUHLENBERG COUNTY
CHARLES E. PERRY, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 19, 2007 Through July 18, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 790,913	\$ 1,081,097	\$ 3,891,917	\$ 971,022
Tangible Personal Property	83,981	152,537	425,905	302,422
Fire Protection	1,372			
Increases Through Exonerations	743	1,001	3,658	913
Franchise Taxes	246,492	387,182	1,244,000	
Additional Billings	6,539	14,094	32,388	8,472
Oil and Gas Property Taxes	12,375	15,585	60,895	15,193
Limestone, Sand and Mineral Reserves	139	175	684	171
Bank Franchises	96,456			
Penalties	8,446	11,977	41,611	11,043
Adjusted to Sheriff's Receipt	7	1,751	(16)	(17)
Gross Chargeable to Sheriff	<u>1,247,463</u>	<u>1,665,399</u>	<u>5,701,042</u>	<u>1,309,219</u>
<u>Credits</u>				
Exonerations	14,041	19,044	69,075	17,253
Discounts	14,879	18,263	63,925	19,079
Delinquents:				
Real Estate	21,592	32,963	106,105	26,476
Tangible Personal Property	6,227	11,310	31,579	9,108
Bills Not Turned Over to County Clerk	43	54	219	57
Franchise Taxes Uncollected	<u>1</u>	<u>2</u>	<u>6</u>	
Total Credits	<u>56,783</u>	<u>81,636</u>	<u>270,909</u>	<u>71,973</u>
Taxes Collected	1,190,680	1,583,763	5,430,133	1,237,246
Less: Commissions *	<u>50,891</u>	<u>67,310</u>	<u>149,329</u>	<u>52,870</u>
Taxes Due	1,139,789	1,516,453	5,280,804	1,184,376
Taxes Paid	1,141,784	1,512,164	5,266,371	1,179,175
Refunds (Current and Prior Year)	<u>2,531</u>	<u>3,754</u>	<u>12,730</u>	<u>5,557</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (4,526)</u>	<u>\$ 535</u>	<u>\$ 1,703</u>	<u>\$ (356)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

MUHLENBERG COUNTY
 CHARLES E. PERRY, SHERIFF
 SHERIFF'S SETTLEMENT - 2007 TAXES
 For The Period May 19, 2007 Through July 18, 2008
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	4,001,689
2.75% on	\$	5,430,133

** Special Taxing Districts:

Library District	\$	407
Health District		60
Extension District		63
Soil Conservation District		5
Airport District		26
East Fork Pond Water District		(15)
Mud River Water District		(2)
Pond Creek Water District		(9)

Due Districts or (Refunds Due Sheriff)	\$	<u>535</u>
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MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT

July 18, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Muhlenberg County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
July 18, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Muhlenberg County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 18, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2007 through April 25, 2008.

B. Oil/Gas Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 8, 2007 through July 18, 2008.

Note 4. Interest Income

The Muhlenberg County Sheriff earned \$1,750 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Muhlenberg County Sheriff collected \$54,660 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of October 7, 2008, the Sheriff owed \$409 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Muhlenberg County Sheriff collected \$4,850 of advertising costs and \$2,916 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff paid the advertising costs, and the advertising fees were used to operate the Sheriff's office.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
July 18, 2008
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2007	\$2,066
2006	\$2,455

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff sent a written report to the Treasury Department in accordance with KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Newman, Muhlenberg County Judge/Executive
Honorable Charles E. Perry, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Muhlenberg County Sheriff's Settlement - 2007 Taxes for the period May 19, 2007 through July 18, 2008, and have issued our report thereon dated October 7, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muhlenberg County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Muhlenberg County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Muhlenberg County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Muhlenberg County Sheriff's Settlement - 2007 Taxes for the period May 19, 2007 through July 18, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Muhlenberg County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 7, 2008

COMMENT AND RECOMMENDATION

MUHLENBERG COUNTY
CHARLES E. PERRY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 19, 2007 Through July 18, 2008

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Our review of internal controls revealed a lack of segregation of duties over cash receipts, cash disbursements, and the bank reconciliation process.

The Sheriff's bookkeeper collected money, prepared deposits, and prepared daily collection printout. The bookkeeper also prepared monthly reports, prepared checks, and delivered/mailed checks to taxing districts. The monthly bank reconciliation process is also done by the bookkeeper. The Sheriff did not document oversight of all of these activities. The Sheriff should implement the compensating controls noted below to offset this internal control weakness.

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He can document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should require the monthly tax distribution reports be reconciled monthly to the receipts and disbursements ledgers.
- The Sheriff should periodically compare the monthly tax distribution reports to the receipts ledger for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax distribution report.
- The Sheriff should periodically compare taxing district payments to checks. The Sheriff should document this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to checks.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

